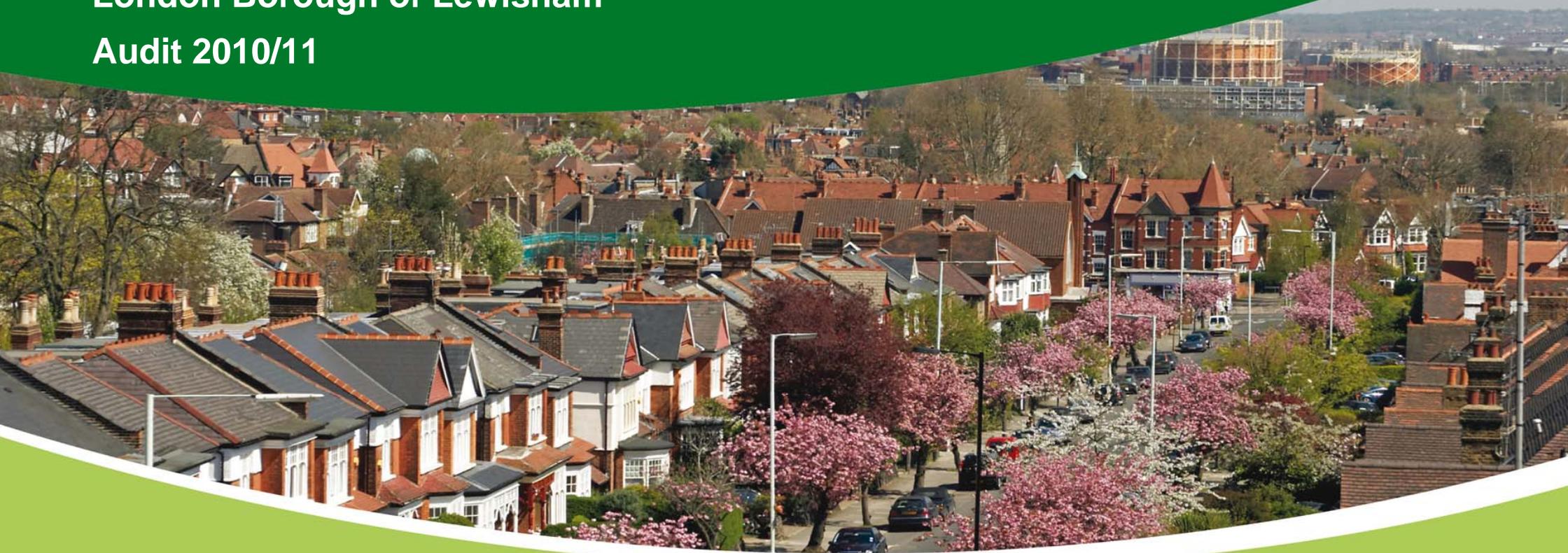


Annual governance report

London Borough of Lewisham

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Financial statements3
 - Value for money4
 - Audit closure certificate4
- Before I complete my audit.....5**
- Financial statements6**
 - Opinion on the financial statements6
 - Errors in the financial statements6
- Value for money.....13**
- Appendix 1 – Draft audit report.....15**
- Appendix 2 – Amendments to the draft financial statements20**
- Appendix 3 – Unadjusted misstatements to the financial statements23**
- Appendix 4 – letter of representation25**
- Appendix 5 – Action plan.....28**
- Appendix 6 – Glossary.....30**

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is in progress. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	The audit is in progress
Proper arrangements to secure value for money	

Audit opinion and financial statements

At the 12 September 2011 my audit is currently in progress; in particular audit work is on going on property plant and equipment, International Financial Reporting Standards (IFRS) restatement exercise, investments, financial instruments, private finance initiative (PFI) schemes and the cash flow statement largely as a result of delays caused by the Council being unable to provide adequate support for the balances. Subject to completion of outstanding audit areas, and based upon the work to date, I plan to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Financial statements

Local authorities, for the first time, have prepared their accounts under International Financial Reporting Standards for 2010/11. As I have previously reported larger more complex authorities will find the transition to IFRS challenging because of the scale of activities they need to undertake.

The Council submitted its accounts for audit by the deadline of 30 June 2011. Although the financial statements were complete not all areas were adequately supported by working papers. In particular the Council's implementation of its new property, plant and equipment asset register has been delayed and this has had implications for the audit trail provided. This has caused considerable delays with the working papers only provided to me on 2 September 2011. Due to the delays and the resulting amount of work outstanding there is a risk that the target date of 30 September 2011 for issuing the audit opinion may be missed. Improvements are needed to ensure working papers are provided to us promptly on production of the draft accounts.

My audit testing identified errors, other than those of a clearly trivial nature, and I reported these to management. The adjusted amendments to the accounts are detailed in Appendix 2.

Management has not adjusted the financial statements for the errors identified in Appendix 3. I would therefore ask you to consider whether to adjust the financial statements for the errors. If you decide not to do so, please tell me why in the letter of representation, a draft of which is in Appendix 4.

My team are working with officers to complete all outstanding testing. Should any further matters arise in concluding the outstanding work that need to be reported, I will raise them with the Executive Director of Resources and the Chair of the Audit Panel.

I would like to thank the Finance team for their cooperation during the audit of this year's accounts and look forward to continuing to work with officers in 2011/12.

Value for money

I plan to issue a conclusion that the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are adequate.

Audit closure certificate

No matters have been brought to my attention requiring me to consider exercising my formal statutory powers so I plan to issue an audit closure certificate with my audit opinion.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Audit Panel to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - review unadjusted misstatements to the financial statements (Appendix 3) and if you decide not to amend please tell me why in the representation letter;
 - approve the letter of representation, (Appendix 4). provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and
 - agree your response to the proposed action plan (Appendix 5).
 - report its findings and recommendations when the Council approves its financial statements.
-

Financial statements

The 2010/11 audit has identified errors that have been reported to management

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

As at 12 September 2011 I have many areas of the audit in progress and the most significant pieces of these are:

- completing the testing of property plant and equipment,
- completing the testing of investments,
- completing the testing of financial instruments,
- completing the testing of private finance initiative (PFI) schemes and
- reviewing the cash flow statement
- completing the IFRS restatement exercise (including leases classification)
- Completing review procedures and finalising audit queries

Errors in the financial statements

At the 12 September 2011, errors other than those of a clearly trivial nature were identified during the course of my audit and reported to management. Management has agreed to adjust the financial statements for the errors identified in Appendix 2. These adjustments include:

- overstatement of income and expenditure entries for capital grants and contributions by £41.5m
- Amendment to eliminate transactions between the Council and Catford Regeneration Partnership Ltd, £11.9m in the group accounts.

As shown in Appendix 3 I identified misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. These adjustments include:

- Reclassification of a gain on revaluation of investments £157,000
- Reclassification of amounts incorrectly included in receipts in advance £262,000

Recommendation

Recommendation

R1 Consider whether the financial statements should be amended to reflect the unadjusted errors. If you choose not to amend, the reasons should be set out in the letter of representation.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>International Financial Reporting Standards</p> <p>Local Authorities must prepare their financial statements under International Financial Reporting Standards from 2010/11 onwards. While this presents many presentational changes there will also be issues of classification or recognition for several significant areas, including leases, private finance initiative (PFI) schemes, Government grants deferred and accruals</p>	<p>In line with the Council's timetable I planned for an early review of the Council's restated balances and discussion with Council officers on key accounting judgements. Unfortunately the Council only provided very limited IFRS information before 30 June. This increased the amount of work for my staff and officers during the final accounts audit.</p> <p>There have been delays in the provision of adequate working papers in particular I did not receive any working papers to support the PFI schemes until 24 August 2011. The Council omitted to make disclosure for the financial closure of phase 4 of its Building Schools for the Future (BSF) scheme in the draft financial statements.</p>
<p>Large scale voluntary transfers</p> <p>In the 2009/10 accounts impairments arising from large scale voluntary transfers (LSVTs) were presented incorrectly as losses on disposal. There were also problems in previous years relating to the accounting treatment. Three transfers (Chrysalis) have taken place in 2010/11.</p>	<p>To date my audit has not identified any errors in the way the Council accounted for the LSVTs .</p> <p>In preparing the financial statements the Council double counted the overhanging debt grant resulting in an error of £41,537k, although there was no affect on the total Comprehensive Income and expenditure balance.</p>

Key audit risk

Finding

New financial systems

The Council has introduced new financial systems during 2010/11.

- Asset register
- NNDR (business rates) system.

The Council planned to implement a new asset register (Real Asset Management) in February 2011 to support the preparation of IFRS compliant financial statements. As part of Internal Audit's work plan they planned to review the accuracy of the new system. I also intended to review the new system in the spring using Internal Audit's work where appropriate to support my work. Unfortunately the implementation did not go as planned. In fact the Council has not been able to successfully implement the property plant and equipment asset register. This has considerably delayed my audit of this area.

The NNDR (business rates) system review has not identified any issues.

Lewisham Homes Limited pension indemnity

Differing interpretations of the Council's letter of indemnity in respect of pension costs has led to an inconsistency in the Council's group accounts

Largely due to changes in indexation of pensions from the retail price index (RPI) to the consumer price index (CPI), which has had the effect of reducing Lewisham Homes Limited's likely future pension liability; the amount this year is not material to the financial statements.

Cash Flow Statement

The cash flow statement is a primary statement. The Council has had problems in past years in producing an accurate and timely version supported by working papers.

The Council has not successfully addressed the problems from past years of producing accurate and timely working papers for the cash flow statement. The original working papers to support the cash flow statement did not agree to the financial statements and included an unsupported amount of £361m for other operating cash payments.

New working papers were provided on 1 September 2011 and my audit of this area is in progress.

Whole of Government Accounts

In previous years the Council has not been able to produce timely and accurate Whole of Government Accounts in order to achieve the deadline.

The Council submitted the draft Whole of Government Accounts on 29 July 2011 in line with the timetable. My audit of this area has not started.

Financial statements

Significant weaknesses in internal control

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>Asset register</p> <p>The council was unable to complete the implementation of its new property, plant and equipment register (Real Asset Management), listing of £1,654m of assets at net book value, in time to support the preparation and audit of the financial statements. The plan was to have the RAM system operational by February 2011.</p> <p>As a result, in mid August 2011 the Council had to revert to spreadsheet records which were provided to me on 2 September 2011.</p>	<p>There may be material errors in the financial statements.</p>	<p>Implement and test the RAM system to ensure that all data has been transferred from manual records and that the system is capable of providing accurate and timely information to support the entries made in the financial statements.</p>

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial closures

Issue	Findings
<p>Quality of the financial statements</p> <p>My audit identified a number of typographical errors, rounding and casting errors (including the balance sheet), trivial inconsistencies between notes to the financial statements, which management have chosen not to amend.</p>	<p>The Council should include appropriate quality control procedures in the final accounts closedown process.</p>

Financial statements

Significant difficulties encountered during the audit

Working paper requirements

I received the Council's financial statements for audit on 30 June 2011, in line with the agreed timetable. The initial deadline that I agreed for the finance team to provide a comprehensive set of supporting working papers was 1 July 2011. This year the Council did utilise the working paper checklist supplied by my audit team. Using the checklist helps working paper files to be compiled whilst preparing the draft financial statements and ensures all key areas are covered. However there were significant delays in providing working papers for property plant and equipment, investments, financial instruments, private finance initiative (PFI) schemes and cash flow statement.

The weaknesses in supporting information and audit trails meant that my audit team had to raise a large number of audit queries and, although I believe officers responded to queries as quickly as possible, the delays led to significant slippage in the audit programme. These issues have been discussed with the Executive Director of Resources and her officers within the finance team. During the course of the audit my audit team have worked with your officers to resolve the issues and agree a revised audit timetable.

Recommendation

R2 To review arrangements for the timely production of financial statements, working papers and dealing with audit queries

Audit Fees

I will discuss the amount of extra work I have had to carry out in the course of this audit Executive Director of Resources. In particular time has been spent dealing with the manual property, plant and equipment asset register, high level of errors, delays around working papers and responding to audit queries.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations (Appendix 4) about your financial statements and governance arrangements.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk	Finding
<p>Managing finances and the Value For Money conclusion</p> <p>The current economic climate is having a significant impact on public finances with public bodies expected to deliver major efficiencies. It is likely that there will be reductions in staffing levels.</p> <p>The Council will need to keep financial performance under scrutiny and take necessary action to correct adverse trends.</p>	<p>As in previous years my review of the Council's arrangements to secure economy, efficiency and effectiveness did not identify any significant issues to prevent the issuing of an unqualified value for money conclusion.</p> <p>The Council has implemented robust plans to deal with the economic climate and has a four year efficiency strategy beginning in 2010, which expects to save over £88m costs from council expenditure. During 2010/11, the Council implemented in-year savings of £3.295m. The savings encompass all the Council's services and directorates.</p>

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>I am satisfied that the Council has robust systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position.</p> <p>The Council is stable both in terms of finances but also culturally, with a low turnover of key finance staff. There are good arrangements in place to lead the organisation and deal with financial risks and opportunities. Good use is made of benchmarking information (such as the Audit Commission Value For Money Profiles) to highlight areas where there is potential for improvement, either by reducing costs or improving services. Councillors are informed of emerging financial risks through regular briefings.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council has prioritised its resources within tighter budgets and has secured economy, efficiency and effectiveness, for example by achieving cost reductions and by improving efficiency and productivity.</p> <p>The Chief Executive and Mayor, supported by the senior management team, have taken a clear lead on prioritising resources and spending reductions. This is reflected in the budget report 2011/12 which sets out the financial strategy, the action taken to consult with staff and the public, the savings proposals and overall financial position for 2010/11. Members were also consulted and the plans were approved at the Cabinet meeting in February 2011.</p> <p>The Council challenges the way activities are delivered and explores new ways of delivering activities. The Council has good arrangements to monitor efficiency savings and the impact on service quality and provision. It uses the Performance Plus performance monitoring system to monitor performance. Cabinet and the senior management team monitor the impact of the savings via regular budget monitoring reports.</p>

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF LEWISHAM

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of the London Borough of Lewisham for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director for Resources and auditor

As explained more fully in the Statement of the Director for Resources Responsibilities, the Director for Resources is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of the London Borough of Lewisham's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director for Resources and auditor

As explained more fully in the Statement of the Director for Resources Responsibilities, the Director for Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, the London Borough of Lewisham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of London Borough of Lewisham and pension fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[Signature]

Susan M. Exton
District Auditor
Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

xxxxxxxxxxxxx 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Recognised capital grants and contributions	Amendment to reverse the double counting of the overhanging debt grant.	41,537			
Other gains / losses The Movement in reserves statement and Note 7 to the accounts have also been amended for the above error.			41,537		
General Creditors Debtors – general debtors due for supplies and services	Amendment to reverse an incorrect journal which resulted in an overstatement of debtors and creditors.			2,387	2,387

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 17 Current debtors:	Reclassification of debtors in line with Code disclosure requirements.				
Other government and local authority accounts					7,738
Central government bodies				4,981	
Other local authorities				1,908	
NHS bodies				623	
Other public bodies				226	
Comparators for 2009/10 have also been disclosed.					
Note 21 Creditors:	Reclassification of creditors in line with Code disclosure requirements.				
Other government and local authority accounts				10,465	
Central government bodies					5,577
Other local authorities					2,836
NHS bodies					1,838
Other public bodies					214
Comparators for 2009/10 have also been disclosed.					
Receipts in advance – PFI schemes	Reclassification of PFI scheme internal contribution			650	
Earmarked reserves					650

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Debtors – general debtors due for supplies and services	Reclassification of PFI scheme contributions due.			676	
Receipts in advance – PFI schemes					676
Creditors – general creditors	Reclassification of rental income received in advance.			562	
Receipts in advance – other receipts in advance					562
Provisions	Reclassification of amounts provided for dilapidation costs not meeting the criteria of a provision under IAS 37.			849	
Earmarked reserves					849
Group accounts:	Amendment to eliminate transactions between the Council and Catford Regeneration Partnership Ltd.				
Long term debtors					11,911
Long term borrowing				11,911	

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, [including uncorrected misstatements from earlier years,] but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Debtors	Reclassification of gain on revaluation of investments.			157	
Interest and investment income			157		
Receipts in advance – capital contributions unapplied	Reclassification of amounts incorrectly included in receipts in advance.			262	
Usable capital receipts reserve (miss posting)					100

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
					162
Usable capital receipts reserve (duplicate entry)					

Appendix 4 – letter of representation

Susan M Exton
District Auditor
1st floor Millbank Tower
Millbank
London
SW1P 4 HQ

Dear Ms Exton
London Borough of Lewisham - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the London Borough of Lewisham, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts, Group Accounts and Pension Fund accounts included within the financial statements

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which gives true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you

Uncorrected misstatement

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

To update when audit finished?

Supporting records

All relevant information, and access to persons within the entity, has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of London Borough of Lewisham related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Other matters

I confirm that the I have provided complete and accurate property, plant and equipment records and that these are recorded in the financial statements.

To update when audit finished?

Signed on behalf of London Borough of Lewisham

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Date

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	Consider whether the financial statements should be amended to reflect the unadjusted errors. If you choose not to amend, the reasons should be set out in the letter of representation.	2	Members	Not agreed	We do not consider it necessary to amend, and authorise the Executive Director for Resources and the Chair of the Audit Panel to sign a letter of representation as appropriate	By 30 September 2011
10	Implement and test the RAM system to ensure that all data has been transferred from manual records and that the system is capable of providing accurate and timely information to support the entries made in the financial statements.	3	Group Manager, Accounts & Capital	Agreed	None	By 31 December 2011
12	To review arrangements for the timely production of financial statements, working papers and dealing with audit queries	3	Group Manager, Accounts & Capital	Agreed	This is a standard programme of work, already carried out every year.	By 31 March 2012

Appendix 6 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

A significant weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

